



# National Child Care Information Center

*A service of the Child Care Bureau*

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## FINANCIAL INCENTIVES in QUALITY RATING SYSTEMS

Quality Rating Systems (QRS) are a method to assess, improve and communicate the level of quality in early care and education settings. QRS are systemic, addressing multiple aspects of early care and education through a uniform approach that is available throughout a State. QRS are part of States' broader quality improvement continuum, and have the following five common elements: 1) standards; 2) accountability; 3) program and practitioner outreach and support; 4) financing incentives specifically linked to compliance with quality standards; and 5) parent education.

As of July 2005, 11 states (**Colorado, District of Columbia, Kentucky, Maryland, Montana, New Mexico, North Carolina, Oklahoma, Pennsylvania, Tennessee, and Vermont**) reported having a Quality Rating System with multiple levels available throughout their State.

The information included in this summary is specific to Quality Rating Systems. Many States have tiered reimbursement systems that include accreditation, and information about this is available on the National Association for the Education of Young Children (NAEYC) Web site, in the document *State Policies on Accreditation and Quality Ratings Systems and Tiered Reimbursement Programs* (updated June 2005) at <http://www.naeyc.org/ece/critical/chart1.asp>. Information identifying States that have a tiered reimbursement system is available in the document *State Tiered Quality Strategies (TQS), 2004* under the Quality Rating Systems topic in the Popular Topics section of NCCIC's Web site at <http://nccic.org/poptopics/statetqs.html>, and at <http://nccic.org/poptopics/statetqs.pdf> in PDF.

The QRS profiled in this document have multiple financing incentives that include tiered reimbursement as well as compensation awards, quality bonuses, and others.

### FINANCIAL INCENTIVES

Financial support is a powerful incentive for participation in a QRS. All of the existing Statewide QRS provide financial incentives of some kind. These can include subsidy payments at higher rates (tiered reimbursement), bonuses tied to quality levels, quality grants or merit awards for programs, loans linked to quality rating, tax credits linked to quality rating, practitioner wage initiatives, scholarships or other professional development initiatives linked to participation in a QRS.

The report *Stair Steps to Quality: A Guide for States and Communities Developing Quality Rating Systems for Early Care and Education* (July 2005), by Anne W. Mitchell, Alliance for Early Childhood Finance, for the United Way of America, Success By 6<sup>®</sup>, and Caliber Associates, Inc., an ICF Consulting Company, includes information about the kinds of supports

and incentives that can be used to help programs and practitioners meet the quality criteria of the QRS and increase program participation in the QRS. This resource is available on the Web at [http://national.unitedway.org/files/pdf/sb6/StairStepstoQualityGuidebook\\_FINALforWEB.pdf](http://national.unitedway.org/files/pdf/sb6/StairStepstoQualityGuidebook_FINALforWEB.pdf).

In addition, the report *Financing Quality Rating Systems: Lessons Learned* (September 2004), by Louise Stoney, Alliance for Early Childhood Finance for the United Way of America, Success By 6<sup>®</sup>, includes information about financial assistance linked to QRS. The table “Nine Statewide Quality Rating Systems” on pages 5-8, includes information about funding sources linked to program QRS levels. This resource is available on the Web at [http://www.earlychildhoodfinance.org/handouts/Louise\\_Stoney\\_QRS\\_Financing\\_Paper.pdf](http://www.earlychildhoodfinance.org/handouts/Louise_Stoney_QRS_Financing_Paper.pdf).

The following is a profile of financial strategies used by States that reported having a Quality Rating System.

#### **TIERED SUBSIDY REIMBURSEMENT**

The most common financial incentive related to a QRS is tiered subsidy reimbursements—higher-quality programs can be paid a higher reimbursement rate for the children in their program who receive child care assistance (if the program charges tuition at or above that higher reimbursement rate). As of July 2004, 30 States (Arizona, Arkansas, Connecticut, District of Columbia, Florida, Hawaii, Indiana, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas, Utah, Vermont, West Virginia, and Wisconsin) have a Statewide tiered reimbursement system in which higher rates are paid to programs that meet higher standards than the State’s licensing regulations. The information included in this summary is specific to the 11 States<sup>1</sup> with QRS.

<b>Colorado</b>	Colorado offers a county option of tiered reimbursement. For additional information contact the Colorado Division of Child Care at 303-866-5958 or on the Web at <a href="http://www.cdhs.state.co.us/childcare/home.html">http://www.cdhs.state.co.us/childcare/home.html</a> .
<b>District of Columbia</b>	<p>The District of Columbia has a tiered rate reimbursement program tied to quality indicators for the Going for the Gold QRS, at the Bronze, Silver and Gold levels.</p> <p>For additional information contact the District of Columbia’s Office of Early Childhood Development at 202-727-1839.</p>

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<sup>1</sup> New Mexico’s QRS was implemented in July 2005, and this analysis does not include New Mexico.

<b>Kentucky</b>	<p>Kentucky has a 4 Star Quality Rating System and has a Star Quality Incentive Award, an annual incentive paid quarterly for programs that achieve levels 2–4 and serve subsidy children. For Type I Centers, the size of the award is based on the size of the program, number and ages of subsidy children and star level. For certified family child care homes and Type II Centers (licensed family child care homes), the amount is based on the ages of the subsidy children.</p> <p>The <i>STARS for KIDS NOW Achievement Award and STAR Quality Incentive Award Chart - Type I</i> is available on the Web at <a href="http://www.education.ky.gov/NR/rdonlyres/epakju55ikonfy4nqvfel25rsplhpt25r3cjztnmtw4hp5s23dv4k3eqhnpqipuyav7asrld2xmgqvmzmxdhvxbia/STARAchievementAwardCharts.pdf">http://www.education.ky.gov/NR/rdonlyres/epakju55ikonfy4nqvfel25rsplhpt25r3cjztnmtw4hp5s23dv4k3eqhnpqipuyav7asrld2xmgqvmzmxdhvxbia/STARAchievementAwardCharts.pdf</a>.</p> <p>The <i>STARS for KIDS NOW Achievement Award and STAR Quality Incentive Award Chart - Type II</i> is available on the Web at <a href="http://www.education.ky.gov/NR/rdonlyres/ex7iong7rtus6ctivvj372fmnfqgnaxn5ulcwmpumsubdqtnfqxvnbgbpbrfytonhtfbgjs65jgnldv36qz7koppa/STARAchievementAwardChartsforHome2002.pdf">http://www.education.ky.gov/NR/rdonlyres/ex7iong7rtus6ctivvj372fmnfqgnaxn5ulcwmpumsubdqtnfqxvnbgbpbrfytonhtfbgjs65jgnldv36qz7koppa/STARAchievementAwardChartsforHome2002.pdf</a>.</p>
<b>Maryland</b>	<p>Maryland’s QRS has 4 levels. Facilities participating at Level 2 or higher receive a certificate of achievement and a paid differential based on Purchase Child Care vouchers. Additional information is available on the Web at <a href="http://63.236.98.116/cca/creden/index.htm">http://63.236.98.116/cca/creden/index.htm</a>.</p>
<b>Montana</b>	<p>Montana has a 2-Star Quality Rating System. One-Star rates are increased 10% above the base rate. Two-Star provider rates are increased 15% above the base rate.</p> <p>For additional information about the tiered reimbursement rate and Montana’s rate table see “Section 3.2 Payment Rates,” in the <i>State Child Care and Development Plan for FY 2005–2007</i>, available on the Web at <a href="http://www.dphhs.mt.gov/newsevents/plans/childcarestateplan.pdf">http://www.dphhs.mt.gov/newsevents/plans/childcarestateplan.pdf</a>.</p>
<b>North Carolina</b>	<p>North Carolina has a five star Rated License. Subsidy payment rates are established for each level of its 1–5 star program. The current rates are available on the Web.</p> <p>The <i>Division of Child Development Subsidized Child Care Market Rates for Family Child Care Homes Effective 4/1/03</i> is available on the Web at <a href="http://ncchildcare.dhhs.state.nc.us/pdf_forms/child_care_home_market_rates.pdf">http://ncchildcare.dhhs.state.nc.us/pdf_forms/child_care_home_market_rates.pdf</a>.</p> <p>The <i>Division of Child Development Subsidized Child Care Market Rates for Child Care Centers Effective 4/1/03</i> is available on the Web at <a href="http://ncchildcare.dhhs.state.nc.us/pdf_forms/Center_Market_Rates.pdf">http://ncchildcare.dhhs.state.nc.us/pdf_forms/Center_Market_Rates.pdf</a>.</p>

<b>Oklahoma</b>	<p>The Oklahoma Department of Human Services (DHS) rates are listed by STAR level starting with One Star Child Care Centers and continuing through Three Star Child Care Homes. The Oklahoma DHS <i>Child Care Eligibility/Rates Schedule, Appendix C-4</i>, Revised 9-1-04, is available on the Web at <a href="http://www.okdhs.org/forms/forms2/OKDHS_Ap-C-4.PDF">http://www.okdhs.org/forms/forms2/OKDHS_Ap-C-4.PDF</a>.</p> <p>As part of its QRS, Oklahoma nearly doubles its reimbursement rates for infants in Three Star centers compared to One Star centers, from \$15/day to \$29/day.</p>												
<b>Tennessee</b>	<p>Participation is mandatory in Tennessee's Evaluation &amp; Report Care Program. Participation in Tennessee's Star-Quality Child Care Program is voluntary; however, participating providers receive higher reimbursement rates. One-Star programs receive 5% above the base rate; Two-Star programs receive 15% above the base rate; Three-star programs receive 20% above the base rate.</p> <p>Additional information is available on the Web at <a href="http://www.tnstarquality.org">http://www.tnstarquality.org</a>.</p>												
<b>Vermont</b>	<p>Child care providers with Star ratings are eligible to receive a higher tuition reimbursement (subsidy) rate. The 2005 reimbursement rates are:</p> <table border="1"> <thead> <tr> <th>Star Level</th><th>Rates</th></tr> </thead> <tbody> <tr> <td>One Star</td><td>+4%</td></tr> <tr> <td>Two Stars</td><td>+8%</td></tr> <tr> <td>Three Stars</td><td>+12%</td></tr> <tr> <td>Four Stars</td><td>+17.5%</td></tr> <tr> <td>Five Stars</td><td>+20%</td></tr> </tbody> </table> <p>Additional information is available on the Web at <a href="http://www.starsstepahead.org/">http://www.starsstepahead.org/</a>.</p>	Star Level	Rates	One Star	+4%	Two Stars	+8%	Three Stars	+12%	Four Stars	+17.5%	Five Stars	+20%
Star Level	Rates												
One Star	+4%												
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Three Stars	+12%												
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## LOANS LINKED TO QUALITY RATING

Quite a few states and communities have established special low- or no-interest loan initiatives for early care and education programs. Frequently these efforts include a program assessment as part of the loan process. North Carolina took this approach a step further and linked it to the program's star level (Stoney, page 24).

<b>North Carolina</b>	In the past, when the state established special loan initiatives to help early childhood programs make needed repairs (after two natural disasters: floods and a hurricane) they linked these efforts to the state's QRS. Early childhood programs that raised their star level during the loan period had all or a portion of their loan converted to a grant, depending upon the level of quality improvement. (Stoney, page 24).
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#### **QUALITY GRANTS, BONUSES, AND AWARDS**

Several States provide quality grants—linked to QRS—for program improvement and professional development. In most States, quality grants are offered as one-time bonuses or awards and are designed as incentives to participate in a QRS (Stoney, 2004 & Mitchell, 2005). Quality grants, bonuses, and awards are all financial incentives. The terminology used to define these incentives varies by State, as do the eligibility criteria, financial amount, time frame (one time award or ongoing support), and the specific objectives of the incentive. For instance, achievement bonuses or awards may be given to providers upon the completion of specific requirements to improve the quality based on the levels established in the States' QRS. Some States may provide improvement grants to help providers who want to participate in the State's QRS. Other States may give ECE programs participating in QRS preference for facilities grants, scholarships for professional development, and/or other quality grants available for all providers.

Quality bonuses or merit awards can be linked to the QRS, but not integrated into the subsidy reimbursement system; such incentives are intended to benefit all children not just those served with subsidy funds (Mitchell, 2005).

<b>Colorado</b>	<p>School-Readiness Grant: In 2002, Colorado established a school readiness child care subsidization program (HB 1297) that used private funds (from Qualistar) to match federal child care funds. The initiative made three-year grants available to child care centers that fed into low performing public schools. To receive three-year funding the centers were required to obtain a quality rating and show improvement within 18 months (Stoney, page 24).</p> <p>Several Colorado county pilots have also established grant programs to supplement the local child care subsidy reimbursement rate (Stoney, page 23).</p>
<b>Kentucky</b>	<p>Kentucky's Participation/Star Achievement Award is a one time cash award upon reaching each star level, beginning at level 2 (with nominal participation award for level 1.) At levels 2–4, the size of the award is based on the size of facility for centers, ranging from \$250 to \$5000.</p> <p>Information about the Participation/ST☆R Achievement Award for Type I Centers (Effective August 22, 2002) and the ST☆R Quality Incentive Award Amounts for Type I Centers (Effective August 22, 2002) is available on the Web at <a href="http://www.education.ky.gov/NR/rdonlyres/eojo7qkq26rtzxe4mlrvvjkvffl4fzousnsy6xoquz3naaajrqkqo7tb26ero6zhlo7hqd7yfwu5f7zucko3djhlwwh/STARAchievementAwardCharts.doc">http://www.education.ky.gov/NR/rdonlyres/eojo7qkq26rtzxe4mlrvvjkvffl4fzousnsy6xoquz3naaajrqkqo7tb26ero6zhlo7hqd7yfwu5f7zucko3djhlwwh/STARAchievementAwardCharts.doc</a>.</p> <p>Information about Participation/ ST☆R Achievement Award for Certified Family</p>

	<p>Child Care Homes and Type II Centers (Effective July 1, 2002) and the ST☆R Quality Incentive Award Amounts for Certified Family Child Care Homes and Type II Centers (Effective July 1, 2002) is available on the Web at <a href="http://www.education.ky.gov/NR/rdonlyres/eze4vfyna7uzalx7uwxc33wwkz5hddak5j546ynxp55ig7k44e7cmjz34cqs1gu5w5pyx4ws3lcic3sdvko7ooqxnta/STARAchievementAwardChartsforHome2002.doc">http://www.education.ky.gov/NR/rdonlyres/eze4vfyna7uzalx7uwxc33wwkz5hddak5j546ynxp55ig7k44e7cmjz34cqs1gu5w5pyx4ws3lcic3sdvko7ooqxnta/STARAchievementAwardChartsforHome2002.doc</a>.</p>
<b>Maryland</b>	<p><b>Achievement Bonuses</b> – To be eligible for an achievement bonus a provider must: apply, be accepted, participate in the credential program for a least one year, and complete continued training and professional activities as well as one year of continued employment in a child care facility. A one-time bonus, at each level, will be paid directly to the participating provider only upon the completion of all requirements, in the following amounts:</p> <p>Level Two - \$200  Level Three - \$300  Level Four - \$500  Level Five - \$750  Level Six - \$1,000</p> <p>This information is available on the Web at <a href="http://63.236.98.116/cca/creden/mdcred.htm">http://63.236.98.116/cca/creden/mdcred.htm</a>. Additional information is available on the Web at <a href="http://63.236.98.116/cca/creden/index.htm">http://63.236.98.116/cca/creden/index.htm</a>.</p>
<b>Montana</b>	<p>Montana has two on-going quality grant programs—mini grants and large provider grants—that are linked to participation in the QRS or other quality improvement efforts such as professional development. Mini-grants are between \$1,000 and \$1,500 per year. Large Provider Grants can be up to \$15,000 a year for up to three years (Stoney, page 24).</p> <p>Additional information is available on Montana’s Child Care Resource and Referral Network Web site at <a href="http://www.montanachildcare.com/provider_grants.htm">http://www.montanachildcare.com/provider_grants.htm</a></p>
<b>Oklahoma</b>	<p>Oklahoma gives programs that participate in their QRS priority for quality improvement grants (Stoney, page 23).</p> <p>Information about provider supports and incentives for Oklahoma’s QRS is available on the Center for Early Childhood Professional Development (CECPD) Web site at <a href="http://www.cecpd.org/">http://www.cecpd.org/</a>.</p>

<b>Pennsylvania</b>	<p>Pennsylvania’s Keystone STARS offers 3 grant programs, including: Annual STARS Support Grants to help programs improve. Calibrated by program enrollment size and star level, the support grants range from \$750 for a One Star family child care home to \$12,000 for a very large Three Star center (more than 180 children) (Mitchell, page 41).</p> <p>Programs at Two Stars, Three Stars, and Four Stars are eligible for annual STARS Merit Awards that range from \$800 for a Two Star family child care home to \$54,000 for a very large Four Star center (Mitchell, page 41.)</p> <p>A “Start with STARS” One Time Award is available for programs that are just beginning to participate in the QRS, and are at the lowest star level.</p> <p>Information about STARS financial support is available on the Web at <a href="http://www.pakeys.org/stars.htm">http://www.pakeys.org/stars.htm</a>. Additional information is available on the Web at <a href="http://www.pde.state.pa.us/early_childhood/lib/early_childhood/STARS.doc">http://www.pde.state.pa.us/early_childhood/lib/early_childhood/STARS.doc</a>.</p>												
<b>Vermont</b>	<p><b>Quality Incentive Bonus:</b> Providers receive a one-time financial incentive payment based on the number of stars earned. The incentive payments for accredited providers are in addition to the current Child Development Division (CDD) system of \$1,000 bonuses for accreditation, credentialing, and renewals.</p> <p>The 2005 incentive payments are:</p> <table data-bbox="711 993 1053 1285"> <tr> <th>Star Level</th><th>Payment</th></tr> <tr> <td>One Star</td><td>\$250</td></tr> <tr> <td>Two Stars</td><td>\$500</td></tr> <tr> <td>Three Stars</td><td>\$1,000</td></tr> <tr> <td>Four Stars</td><td>\$1,150</td></tr> <tr> <td>Five Stars</td><td>\$1,550</td></tr> </table> <p>STARS providers are also given preference for facilities grants given by the Building Bright Spaces for Bright Futures Facilities Panel. With three or more stars, providers become eligible to receive a Young Explorers computer learning center donated by IBM in support of STARS.</p> <p>Additional information is available under Provider Incentives in the FAQ section of the Step Ahead Recognition System Web site at <a href="http://www.starsstepahead.org/">http://www.starsstepahead.org/</a>.</p>	Star Level	Payment	One Star	\$250	Two Stars	\$500	Three Stars	\$1,000	Four Stars	\$1,150	Five Stars	\$1,550
Star Level	Payment												
One Star	\$250												
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Five Stars	\$1,550												

## CONTRACTS

Several States use contracts to create and stabilize the supply of certain types of child care in the highest need areas, for instance, infant and toddler care, nontraditional hours, and care for children with special needs. Vermont and the District of Columbia have linked their contracts with providers to participation in the QRS.



<b>Vermont</b>	<p>In addition to making child care vouchers available to low-income families, Vermont negotiates contracts with a limited number of programs that provide early care and education services. These providers, who receive a higher rate of reimbursement, are now required to participate in STARS (Stoney, page 23).</p> <p>Vermont has established contracts or grants for infant/toddler care to promote the delivery of quality care for this age group. To be eligible for such a contract, providers must be accredited, participate in a child care network, maintain individual professional development plans for all staff, including family child care providers, and have a business plan. The contract/grant reimburses at a higher level to assure professional development opportunities and adequate compensation. Additional information is available in “Section 5.1 - Quality Earmarks and Set-Asides” of the Vermont <i>State Child Care and Development Fund Plan for FFY 2004–2005</i>, available on the Web at <a href="http://www.state.vt.us/srs/childcare/ccdevfundplan.doc">http://www.state.vt.us/srs/childcare/ccdevfundplan.doc</a>.</p>
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## SCHOLARSHIPS

Practitioners need access to education that leads to the qualifications and credentials specified in the QRS. Some states offer scholarships to help pay for the college courses needed (Mitchell, page 40). Scholarship programs provide funds to early care and education workers to cover the costs of higher education or training. Scholarships for professional development make the pursuit of education more accessible and program participation in the QRS more likely. Some states (Maryland, North Carolina, and Pennsylvania) give priority for scholarship programs, such as the T.E.A.C.H. Early Childhood® (Teacher Education and Compensation Helps),\* to programs participating in the QRS and working to improve their ratings (Mitchell, page 42).

<b>Maryland</b>	<p>Child care providers participating in the QRS at Level Two or higher are eligible for up to \$400 in training vouchers or reimbursement for approved training.</p> <p>This information is available on the Web at <a href="http://63.236.98.116/cca/creden/mdcred.htm">http://63.236.98.116/cca/creden/mdcred.htm</a>. Additional information is available on the Web at <a href="http://63.236.98.116/cca/creden/tiered.htm">http://63.236.98.116/cca/creden/tiered.htm</a>.</p>
<b>Oklahoma</b>	<p>The Scholars for Excellence initiative provides scholarships to help pay for tuition and books; the Scholar Coordinators in each community college assist students in other ways (Mitchell, page 42). To qualify for the Scholars for Excellence in Child Care program, one of the requirements is child care providers must work in a one-star plus or above Department of Human Services (DHS)—or tribal—licensed child care facility with a minimum of 10 percent subsidy children at time of application. Additional information is available on the Web at <a href="http://www.okhighered.org/secc/">http://www.okhighered.org/secc/</a>.</p>



<b>Pennsylvania</b>	<p>T.E.A.C.H. (Teacher Education and Compensation Helps) Early Childhood® PENNSYLVANIA works with providers, colleges, and child care staff to offer scholarship programs and support systems that improve the education and compensation of child care workers. T.E.A.C.H. PENNSYLVANIA gives priority to practitioners who work in programs at a two-star or higher level (Stoney, page 25).</p> <p>T.E.A.C.H. is administered by the Pennsylvania Child Care Association (PACCA). Additional information is available on the Web at <a href="http://www.pacca.org/TEACH/">http://www.pacca.org/TEACH/</a>, including the <i>2004 Annual Report</i> at <a href="http://www.pacca.org/PDF/2004report.pdf">http://www.pacca.org/PDF/2004report.pdf</a>, or contact PACCA at 717-657-9000.</p> <p>Pennsylvania has also redesigned the free or low-cost training available through their ECE professional development system to help practitioners meet the Keystone STARS annual training requirements.</p>
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Note: Twenty-three States have a T.E.A.C.H. Early Childhood® Project, three of which have a QRS—Colorado, North Carolina, and Pennsylvania. Additional information about the T.E.A.C.H. Early Childhood® Project is available on the Child Care Services Association Web site at <http://www.childcareservices.org/teach/project.html>.

## WAGE SUPPLEMENT

Wage Incentives, also known as Wage/Compensation Supplements, are designed to reward early care and education teachers and providers based on their level of education and years of tenure. Although quite a few states or communities have established early childhood practitioner wage initiatives, these efforts are rarely directly linked to participation in the QRS. Stoney (2004) reported “The individuals interviewed for this paper were quick to point out, however, that these efforts were in effect linked because each level on the QRS includes standards for both programs and practitioners. Thus, there is a strong incentive for programs that seek to advance up the QRS to build linkages with the state or local practitioner wage initiative” (Stoney, page 25).

<b>Pennsylvania</b>	<p>Programs at Star 2, 3, and 4 are eligible for annual ongoing Education and Retention Awards for staff with degrees in Early Childhood Education or related fields; awards range from \$1,000 to \$4,000 per staff member (Mitchell, page 41).</p> <p>Additional information is available on the Web at <a href="http://www.pakeys.org/stars.htm">http://www.pakeys.org/stars.htm</a> and <a href="http://www.pde.state.pa.us/early_childhood/lib/early_childhood/STARS.doc">http://www.pde.state.pa.us/early_childhood/lib/early_childhood/STARS.doc</a>.</p>
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Note: *R.E.W.A.R.D.<sup>TM</sup> Oklahoma* provides education-based salary supplements to practitioners based on their qualifications. This program is not directly tied to Oklahoma’s QRS but these supports are targeted to staff in programs with ratings above the One-Star level (Mitchell, page 42 and CECPD Web site). The *R.E.W.A.R.D. Oklahoma* program is offered Statewide with funding provided by the Oklahoma Department of Human Services (OKDHS) Division of Child Care. These Participants in the *R.E.W.A.R.D. Oklahoma* program may increase their supplement amounts by gaining more education.

## TAX CREDITS

Governments can use *tax credits* to help parents pay the costs of child care. The Federal government and 27 States offer a Dependent Care Tax Credit (DCTC) (Donahue et al., 2002). The DCTC also can be linked to child care quality. While none of the 10 States with a multi-level QRS have used tax credits as a financial incentive, several States have linked DCTC to quality standards in child care (see examples below).

<b>Arkansas</b>	<p>Arkansas allows qualified taxpayers to claim an additional 20% of their Federal child and dependent care tax credit for expenses incurred by a “qualified individual” for child care services provided by an “approved child care facility.” These facilities provide an appropriate early childhood program for children ages three through five as certified by the Arkansas Department of Education.</p> <p>Additional information can be found in the <i>Individual Income Tax Regulations</i> (Code: 1.26-51-502(c)(1) Twenty Percent (20%) Approved Child Care Facility Credit), available on the Arkansas Department of Finance and Administration Web at <a href="http://www.state.ar.us/dfa/income_tax/ind_tax/pdf/individual_income_tax_regulations.pdf">http://www.state.ar.us/dfa/income_tax/ind_tax/pdf/individual_income_tax_regulations.pdf</a>.</p>
<b>Maine</b>	<p>A Maine taxpayer who enrolls a child in a child care center or home that has a Quality Certificate (issued by the Department of Human Services Child Care Division) is eligible for a double child care tax credit on their Maine individual income tax return.</p> <p>Additional information can be found in the <i>Maine Revised Statutes</i>, Title 36: Taxation, Part 8: Income Taxes, Chapter 822: Tax Credits, Section §5218. Income tax credit for child care expenses, available on the Maine Revenue Services Web site at <a href="http://janus.state.me.us/legis/statutes/36/title36sec5218.html">http://janus.state.me.us/legis/statutes/36/title36sec5218.html</a>.</p> <p>Child Care Credit Applications and instructions are available on the Web at <a href="http://www.state.me.us/revenue/incomeestate/childcare.html">http://www.state.me.us/revenue/incomeestate/childcare.html</a>. For additional information about Quality Certificates, contact the Office of Child Care and Head Start at 207-287-5099.</p>

<b>Vermont</b>	<p>In June 2002, Vermont implemented a refundable Low Income Child and Dependent Care Credit for taxpayers with an adjusted gross income less than \$30,000 (or \$40,000 for married, filing jointly) and who enroll their child(ren) in an accredited child care facility or family child care home. The credit is equal to 50 percent of the Federal Child and Dependent Care Credit.</p> <p>The statute “32 V.S.A. § 5828c. Low-income child and dependent care credit,” Chapter 151: Income Taxes, Title 32: Taxation and Finance, <i>Vermont Statutes</i>, is available on the Vermont Legislature Web at <a href="http://www.leg.state.vt.us/statutes/fullsection.cfm?Title=32&amp;Chapter=151&amp;Section=05828C">http://www.leg.state.vt.us/statutes/fullsection.cfm?Title=32&amp;Chapter=151&amp;Section=05828C</a>.</p> <p>Additional information, including the Low Income Tax Credit Form, is available on the Web site of Child Care Services, Vermont Department for Children and Families, at <a href="http://www.state.vt.us/srs/childcare/accredited.htm">http://www.state.vt.us/srs/childcare/accredited.htm</a>.</p>
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The report *Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions* (April 2002), by Elisabeth Hirschhorn Donahue and Nancy Duff Campbell, analyzes and evaluates tax policies relating to care for children and adult dependents; reviews the reasons supporting enactment of child and dependent care (CADC) tax provisions; describes the Federal child and dependent care tax credit, which serves as the basis for many State provisions; and provides an overview of the State CADC tax provisions in effect for tax year 2001. The report is designed to help State policy makers and advocates in developing the best CADC income tax provisions possible for their States. The report also identifies policy decisions commonly made when enacting and implementing CADC income tax provisions and makes recommendations designed to help policy makers and advocates identify and pursue the best decisions for families. This resource is available on the Web at <http://www.nwlc.org/pdf/MakingCareLessTaxing2002.pdf>.

## **QRS FINANCIAL INCENTIVES: SYSTEMIC APPROACHES**

In North Carolina essentially all quality funds are linked to the STARS Rated License, and all providers are participants, at least at the one star level, because the QRS is directly connected to licensing. In reference to North Carolina’s Star Rated License, Peggy Ball, the North Carolina State Child Care Administrator has been quoted as stating “Everything is examined through the lens of STARS. Every time we launch a new initiative we ask ourselves if this will be an incentive or disincentive to the STARS rating system ...” (Stoney, page 21).

There are a variety of resources offering financial assistance for quality improvement in North Carolina. Among them are:

- T.E.A.C.H. Early Childhood® Project offers scholarships, health insurance and salary supplements to child care workers. Information about T.E.A.C.H. in North Carolina (the

founding State) is available on the Web at  
<http://www.childcareservices.org/teach/project.html>.

- Child Care WAGE\$® Project provides education-based salary supplements to low paid teachers, directors, and family child care providers working with children between the ages of 0–5. The project is designed to provide preschool children more stable relationships with better educated teachers by rewarding teacher education and continuity of care. The Child Care WAGE\$® Project is offered Statewide in North Carolina as a funding collaboration between local Smart Start Partnerships and the Division of Child Development. Counties that use Smart Start funding to support the Child Care WAGE\$® Project may participate. Child Care Services Association (CCSA) administers the project in participating North Carolina counties. Additional information is available on the Web at <http://www.childcareservices.org/wages/wages.html>.
- Local Smart Start partnerships offer a variety of financial supports from playground improvement grants and onsite technical assistance to scholarships, wage supplements, or other financial incentives for program improvement. Smart Start is a public-private initiative that provides early education funding to all of the State's 100 counties. Smart Start funds are administered at the local level through local nonprofit organizations called Local Partnerships. Additional information is available on the Web at <http://www.ncsmartstart.org>.

#### **ADDITIONAL QRS RESOURCES**

Additional information about Quality Rating Systems is available on the NCCIC Web site at <http://nccic.org/poptopics/index.html#qrs>. The document titled, *Quality Rating Systems: Definition and Statewide Systems* is available on the Web at <http://nccic.org/pubs/qrs-defsystems.html> and in PDF at <http://nccic.org/pubs/qrs-defsystems.pdf>. This document links to the 11 QRS Web sites when available.

The National Child Care Information Center does not endorse any organization, publication, or resource.

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